

FOR IMMEDIATE RELEASE

May 8, 2015

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Yadkin County received the attached e-mail today from Chief Legal Officer of the current hospital provider, HMC/CAH Acquisition Company 10, LLC d/b/a Yadkin Valley Community Hospital (HMC/CAH) in response to the offer the Yadkin County Board of Commissioners made to them on May 4, 2015. HMC/CAH had expressed to the County that time was of the essence and that they were willing to reopen negotiations with the County based upon a long term lease of the hospital premises coupled with their offering to agree to the same terms as had been expressed in Hugh Chatham Memorial Hospital's (HCMH) response to the County's request for proposals. The terms of HCMH's response to the Request for Proposals by the County mirror the terms offered by the County to HMC/CAH except that the County did not agree to pay HMC/CAH a payment of \$750,000.00 as Hugh Chatham Memorial Hospital (HCMH) had included in their response, which amount HCMH was going to use to assist with purchase of the assets and operations of Yadkin Valley Community Hospital from HMC/CAH Acquisition Company 10, LLC (HMC/CAH). Being that HMC/CAH already owned the operations and personal property assets of Yadkin Valley Community Hospital, it was obviously not necessary for the County to offer any payment of \$750,000.00 to HMC/CAH.

Financial statements provided by HMC/CAH have shown sustainable profitability for the last many months, and they appear to be able to make reasonable payments for rent and their overhead expenses. Such payments can be substantially reimbursable by the federal government under the Critical Access Hospital program that the current hospital operates under. The County proposal, when taking in consideration these reimbursements and the indigent care payments proposed by the County, potentially create a near zero cost of the lease to HMC/CAH.

County Commissioner Chairman Kevin Austin made the following statement concerning the response by HMC/CAH, "The statements by the attorney for the current hospital operator are completely without merit or any form of reasonable negotiation. The County will not tolerate any more demands for a free ride by an entity that obviously has achieved financial stability and has paid very little rent to the County for practically the entire time they have been our hospital operator. In exchange for the operator allowing the County to locate the County Medical Clinic and the EMS facility headquarters in the building, the County allowed the operator to pay no rent for the past two years. For them to think that the citizens of Yadkin County should pay a for profit corporation millions of dollars for their failure to properly account to the United States government concerning Medicare/Medicaid is beyond the pale. It is obvious that now is the time for the Board of Commissioners to seek other solutions to the healthcare needs of our citizens."

From: Dennis Davis [mailto:DDavis@ruralcommunityhospitals.com]
Sent: Friday, May 08, 2015 4:13 PM
To: Lisa Hughes
Cc: Jim Shaffer; Larry Arthur; Trent Skaggs; Darrel Morris; Shawn Bright
Subject: Counteroffer/Request to Negotiate

Ms. Hughes,

Please explain to the Commissioners that CAH10 will not accept lease terms presented to it on a take-it-or-leave-it basis. What CAH10 is asking for is the opportunity to negotiate a mutually agreeable fourth amendment based on the terms and conditions outlined below. We need to start this process immediately and, if necessary, representatives of CAH10 will travel to Yadkinville to meet with the you and Commissioners. Here is where CAH10 wants to start the negotiation:

- The term and termination provisions of the amended lease will be those stated in section 1 of the County's proposed fourth amendment (i.e. one year term and four additional one year terms at the option of CAH10).
- The current rent under the amended lease will remain unchanged.
- The County will reimburse CAH10 \$300,000 per year for indigent care.
- The County will pay \$1 million to CAH10 on the signing of the fourth amendment. These funds may be used for any purpose in the operation of the hospital.
- The County will pay \$50,000 upfront to CAH10 which can be used for capital improvements to the hospital premises. Thereafter the County will match \$1.00 for every \$2.00 CAH10 spends on capital improvements. CAH10 will provide to the County invoices and cancelled checks for capital improvements to receive these payments.
- CAH10 will provide the County with copies of the hospital's monthly financial statements. The CEO of the hospital will meet with the County Manager on a quarterly basis. The County may inspect the hospital premises on a reasonable schedule but the County will not have any role or participation in hospital operations.
- All other terms and conditions of the amended lease shall remain in full force and effect throughout the term of the fourth amendment.

If the negotiation of a fourth lease amendment cannot be accomplished, CAH10 would also be willing to negotiate the sale of the business operations and assets of the hospital. Such sale would be based on the economic terms stated in the Hugh Chatham term sheet. Those terms are summarized as follows:

The County will pay to CAH10 a cash purchase price of \$1,500,000 for the sale and transfer of hospital's assets, personal properties and operating rights free of liens.

- Cash, accounts receivable and prepaid items will be excluded from the sale and will remain the property of CAH10.
- CAH10 will remain liable to pay the accounts payable and certain other liabilities related to operation of hospital.
- Liabilities arising from the Medicare/Medicaid programs during the period from April 1, 2009 through the closing of the sale in an amount not to exceed \$1,375,000 will be paid by the County. CAH10 will pay any such liabilities that are in excess of \$1,375,000. The county is and will remain liable to pay the Medicare/Medicaid program liabilities incurred prior to April 1, 2009.
- The County will assume and pay the bankruptcy debts of CAH10 under the Chapter 11 plan.
- RCHA would be willing to manage the hospital for the County after the closing.

Please let me know if and when the Commissioners are ready to enter into a good faith negotiation with CAH10 based on either of the above options.

I will close this email by once again stating that time is of the essence. Both the clinical and financial operations of the hospital continue to deteriorate further as each day passes. CAH10 estimates that the hospital has lost approximately \$20,000 a day in net patient revenue (most of which is directly related to the steep decline in inpatient census from 10 patients to one) since the WARN notice was given on February 28th. CAH10 cannot allow losses of this magnitude to continue and it is becoming more and more unlikely that the hospital will be able to remain open until July 31st. What I am saying is the truth and not puffery.

Dennis Davis

Chief Legal Officer

Rural Community Hospitals of America

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